Funds take active interest in passive strategies

By Trudy Ring

Managers with passive investment strategies attracted the biggest chunks of pension fund assets in the first quarter of 1985.

Among manager hirings reported in *Pensions & Investment Age*, the largest allocations were for stock index funds run by three of the leaders in this area — Wells Fargo Investment Advisors, Mellon Capital Management Corp. and Bankers Trust Co.

On the fixed-income side, the biggest allocations reported in the first quarter were for firms that manage dedicated or immunized bond portfolios. Lincoln Capital Management Co. was the big winner here.

The largest number of new accounts reported in *P&I Age* for any manager was five for Oppenheimer Capital Corp., which won both equity and balanced accounts.

Four new accounts each were reported for four managers: Bankers Trust Co.; LaSalle Advisors Inc.; NCNB National Bank; and State Street Bank & Trust Co.

At the other end of the spectrum, managers that lost multiple accounts included growth stock managers Alliance Capital Management Corp. and MacKay-Shields Financial Corp. Growth stocks suffered in last year's market.

Also losing more than one account were The Griffin Group, Century Capital Associates and Bernstein-Macaulay Inc.

Some of the hirings or dismissals might have occurred during 1984, but they were not made public and reported in *P & I Age* until the first quarter of 1985.

Sometimes the published reports just skimmed the surface of the new business won by each manager. For instance, *P&I Age* reported on $1.33 billion in new index fund accounts for San Francisco-based Wells Fargo. However, the firm actually landed $3.78 billion during the quarter, a spokesman said.

Mellon, also based in San Francisco, and Bankers Trust, New York, were the firms chosen to run stock index funds for the Teamsters, Central States, Southeast and Southwest Areas pension fund. This accounted for the $800 million in new business for Mellon and $750 million for Bankers Trust reported in *P&I Age*.

Bankers Trust also was one of six managers hired to handle a portion of a $1.4 billion dedicated bond portfolio for Chrysler Corp., but its share of the assets was not disclosed.

Mellon and Bankers Trust also won several more accounts, for a total of $1.15 billion in new business for Mellon and $1.75 billion for Bankers Trust.

Mellon got 12 new accounts, all for various types of index funds, including specialty funds, accord-

Continued on page 34

Most new accounts*
First quarter 1985

Manager	no. of accounts
Oppenheimer Capital Corp.	5
Bankers Trust Co.	4
LaSalle Advisors Inc.	4
NCNB National Bank	4
State St. Bank & Trust Co.	4

*As reported in *P&I Age*.

Most new assets managed*
First quarter 1985

Manager	Amount ($ millions)
Wells Fargo Investment Advisors	$1,330
Mellon Capital Management Corp.	800
Bankers Trust Co.	750
Lincoln Capital Management Co.	283
Chase Investors Management Corp.	140
Oppenheimer Capital Corp.	139
Horsley Keogh & Associates	110
Lazard Freres Asset Management	79
Alliance Capital Management Corp.	75
American National Bank & Trust Co.	73

*As reported in *Pensions & Investment Age*.

Officials urged to withdraw assets

Insurers' GICs new union target

By Mark Westerbeck

POMPANO BEACH, Fla. — Flush with confidence after taking on the federal government and winning, Dennis Walton is taking on a new institutional-sized adversary — the life insurance industry.

Mr. Walton, business manager of the Operating Engineers Local #675 and chairman of its pension trust, has a draft of a letter that asks all trade unions to withdraw investments managed by insurance companies that fund construction projects built by non-union labor.

In singling out guaranteed investment contracts and annuity contracts as targeted investments, Mr. Walton is broadening the usual area of concern from commingled equity funds managed by insurance company advisory units.

Mr. Walton said he has a computerized mailing list of 5,000 U.S. union leaders and trustees that should be put into use within two weeks. The letter will be signed by the members of the Broward County Building Trades Council, which includes union locals in Fort Lauderdale, Pompano Beach and other south Florida cities.

Their actions in large part are due to pressure they feel from a constituency living in a region that is not pro-union.

"Right now there's a lot of pressure on our unions here in the South," said James Weldon, president of the Broward Building Trades Council and business manager of the International Brotherhood of Electrical Workers Local #728.

When union pension fund capital is invested in local construction projects, the member benefits in three major ways: preretirement employment; contributions by the project employer to the union member's post-retirement investment income; and the presumption the project is giving off a return at least at market rates.

Circumventing the use of union labor proves to be cheaper for the developer, even though federal law mandates the prevailing market wage must be paid.

Mr. Walton is well known throughout the union investment community for his lengthy and acrimonious battle with the Labor Department over real estate investments by Operating Engineers Local #675, and garnered significant support during the struggle.

The local's biggest victory in a series came within the past two months, when a U.S. District Court dismissed Labor Department charges that trustees violated fiduciary responsibilities by financing

Continued on page 34

Delay harms EDS plans

By Fred Williams

DALLAS — Two Electronic Data Systems Corp. employee benefit plans have suffered substantial losses because of government delays in the company's request for an ERISA exemption, EDS officials said.

The Dallas-based electronics and data processing firm filed a request with the Department of Labor in November 1984, asking approval of a stock exchange transaction in which General Motors Corp. used its common stock, notes and cash to purchase EDS stock from the EDS pension and 401(k) plans. (*Pensions & Investment Age*, April 15).

GM and EDS agreed in August 1984 to a merger plan in which GM would acquire EDS for $2.6 billion.

The EDS employee benefit plans owned a combined total of 194,377 shares of EDS stock at the time of the takeover. The plans received about $6.8 million in cash from GM, along with fractional shares of a new class of GM common stock

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Late news

Continued from page 1

ard Lambourne, acting chief, did not seek the permanent post.

Mr. Flannigan would be hired on a one-year contract, with a yearly option to renew for two years. It is expected he would earn more than $100,000.

Anne Miller, deputy chief executive officer for the California fund, said Mr. Flannigan would not be under a bonus plan as is Greta Marshall, who was hired in early April as investment officer for the $23 billion California Public Employees' Retirement system.

Caterpillar hires 2

PEORIA, Ill. — The $2.4 billion Caterpillar Tractor Co. pension fund reportedly tapped J.P. Morgan Investment Management Inc. and Chase Investors Management Corp., both of New York, for an $800 million quantitative bond program.

N.Y. Teachers hire 4

ALBANY, N.Y. — The $13 billion New York State Teachers' Retirement System, the country's seventh largest pension fund, made its first selection of equity real estate managers last week, committing $300 million to four large open-end commingled funds.

The four are Prudential Asset Management Co.'s PRISA; Equitable Real Estate Investment Management's Separate Account #8; Aetna Life and Casualty Co.'s RESA; and Goldman, Sachs & Co.'s open-end fund. Lowell A. Blom, mortgage officer for the system, comfirmed the commitment, but would not discuss details before the contracts are signed.

Florida can't divest

TALLAHASSEE, Fla. — The Florida State Board of Administration cannot divest itself of South Africa-related stocks on the basis of ethical criteria alone, the state's attorney general said.

According to state law, the board must judge investments on the basis of yield, risk and diversification, Attorney General Jim Smith said in response to an inquiry from the state Board of Administration.

Public fund expands

LINCOLN, Neb. — The Legislature has advanced a bill that would require all but two counties to join the $121 million Nebraska State Retirement System.

The bill might come to a vote next week, said Jim Powers, a budget officer for the system.

The two counties excluded have their own retirement systems. Of the other 91, 34 are in the state system and 57 do not have retirement plans, Mr. Powers said.

Weimert heads fund

WHITE PLAINS, N.Y. — Richard Weimert formally has been placed in charge of General Foods Corp.'s $1.5 billion pension fund on an interim basis. He had been manager-benefit funds until Raymond Nargi resigned as assistant treasurer to become director of financial management at Pennsylvania State University.

Union loses bid

WASHINGTON — The International Union of Operating Engineers' Central Pension Fund failed to place a resolution in Phelps Dodge Corp.'s proxy materials concerning the firm's use of defeasance.

The Securities and Exchange Commission upheld the company's objection that the resolution dealt with ordinary business matters and was not subject to shareholder approval.

"Also, at least six New York City pension funds and three union funds withheld endorsement of George Munroe, Phelps Dodge's chairman, for re-election to the board of Manufacturers Hanover Corp., one of Phelps Dodge's main creditors.

Bernstein signed

PITTSBURGH — The $150 million University of Pittsburgh endowment fund has hired Sanford C. Bernstein & Co., New York, to run a $10 million fixed-income account, according to Michael Hagan, assistant treasurer.

The assets previously were managed by Hoisington Investment Management Co., Houston, which was terminated in February.

Marks joins TCW

LOS ANGELES — Howard Marks, formerly vice president and senior portfolio manager of Citibank's high-yield bond fund, has joined Trust Co. of the West here as a managing director to launch a junk-bond capability.

Passive . . .

Continued from page 2
ing to Tom Loeb, president.

"People are wanting to do more types of index funds," he said.

Mr. Loeb and Patty Mahoney, a vice president of Bankers Trust, agreed index funds have attracted investors who are dissatisfied with the performance of traditional active equity management.

Passive management was popular for fixed income, too. Lincoln Capital Management, Chicago, had $283 million in new business reported in *P&I Age*. These funds are in two dedicated bond portfolios — $200 million for Montgomery Ward & Co. and $83 million for Container Corp. of America, both Chicago-based firms.

While large amounts of assets are being dedicated or immunized, Ken Meyer, Lincoln Capital's executive vice president, said he doesn't see any trend among the firm's clients. "Each client has come in for a very specific, individual reason," he said.

Although passive strategies were popular, active managers still were winning business.

Oppenheimer Capital Corp., New York, gained at least $130 million in five new accounts reported in *P&I Age*. Oppenheimer's philosophy is to seek consistent high returns with a minimum of risk by buying undervalued securities and making timely moves from stocks and bonds to cash.

The biggest new account reported for Oppenheimer was a $100 million balanced account for the Detroit Retirement System. The firm also gained $20 million and $10 million equity accounts, a $9 million balanced account and another equity account of undisclosed size, according to *P&I Age* reports.

Alternative investments attracted sizable new dollars, too, as three tax-exempt funds made commitments totaling $110 million to the Horsley Keogh Venture Fund, which invests in venture capital partnerships. It is run by Horsley Keogh & Associates, Boston.

Rounding out the Top 10 managers, in terms of asset gains reported in *P&I Age*, were Chase Investors Management Corp., New York, with $140 million in fixed income, including a $40 million dedicated portfolio; Lazard Freres Asset Management, New York, with $79 million, primarily in actively managed balanced accounts; Alliance Capital Management Corp., New York, with $75 million in an index fund; and American National Bank and Trust Co., Chicago, with $73 million in equities, including $33 million for index funds.

The managers that got the most accounts didn't necessarily get the most assets. However, the business won by two of the managers that tied for second in number of new accounts indicates tax-exempt funds are making commitments to real estate.

LaSalle Advisors, a Chicago-based real estate specialist, had four new accounts reported, but these totaled just $45 million. NCNB, of Charlotte, N.C., had four new accounts totaling $24 million, with $22 million of that for real estate and the remainder for bonds.

The four new accounts for State Street Bank & Trust Co., Boston, all were for master trustee services, according to *P&I Age* reports. Bankers Trust won two master trustee accounts, as well as the Teamsters index fund and the Chrysler dedication.

Numerous managers had three new accounts reported in the first quarter.

One of the Top 10 gainers in new assets reported also had the most assets reported lost in the first quarter. *P&I Age* reported Alliance lost three equity accounts — including the Detroit Retirement System — with assets totaling $223 million. Its gain, as reported in *P&I Age*, totaled $75 million.

The restructuring of the Detroit municipal fund also resulted in Detroit-based Comerica Bank's allocation being reduced to $75 million from $285 million. The bank now will run equities instead of a balanced account. Fund officials said they weren't comfortable with the large amount overseen by Comerica and decided not to allocate more than $100 million to any one manager.

Besides Alliance, another growth stock manager that had accounts reported lost was MacKay-Shields Financial Corp., New York. It was dropped from a $42 million balanced account for Nashua Corp., Nashua, N.H., which cited performance as the reason.

MacKay-Shields also was dropped by A.B. Dick Co., Chicago, where it and The Griffin Group, Chicago, had split $55 million in assets in balanced accounts. A.B. Dick officials said the change had nothing to do with the performance of either manager. Griffin uses a bottom-up approach for equities and a top-down approach for bonds.

Poor performance was given as the reason for terminating only one of the three accounts Griffin lost. That was a $29 million account for American Hospital Supply Corp., Evanston, Ill. Griffin's biggest loss, however, was the Combined International Corp. pension fund, which was moved in-house. Griffin had been sole manager for the Northbrook, Ill., fund, which has between $130 million and $140 million in assets.

Century Capital Associates, New York, lost two accounts totaling $103 million, *P&I Age* reported. Officials of both funds cited Century's recent management change as a factor. With the change, Century has altered its equity investment style, going from market timing to a value-oriented approach.

Another manager with more than one account reported lost was Bernstein-Macaulay Inc., New York, which takes a top-down approach. It lost two accounts totaling $24 million.

Managers that had one large account reported lost were Putnam Advisory Co., Boston, $87 million in equities; Penmark Investments, Chicago, $66 million in bonds; Weiss Peck & Greer, New York, and IDS Advisory Group, Minneapolis, $80 million each in equities.

Putnam, Weiss Peck & Greer and IDS were among the losers in Dart & Kraft Inc.'s pension fund restructuring. The Northbrook, Ill., fund apparently dropped them because of performance. Penmark was dropped in an overhaul of the Chicago Policemen's Annuity and Benefit Fund. ■

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New union target . . .

Continued from page 2
the union headquarters building with plan assets (*Pensions & Investment Age*, March 18).

Another recent victory is the sale of a 100-acre tract in Pompano Beach to Trammell Crow Co., the major developing firm, which has committed its five-year, $150 million office and industrial development on the site, called Park Central, to standard union-labor contracts.

The union leader makes no bones he wants to capitalize on that momentum. The court victory "certainly has" bolstered his confidence, "and we have been highly successful with our own all-union projects," he said.

In taking on GICs, Mr. Walton's warning to the union leaders is "save yourself, quick.

"We are developing a letter campaign to further the position that unions that invest in insurance companies are investing in their demise."

"It's in essence a plea to all trades to ban together their pension funds to gain employment and funds for their pension funds by withholding their assets from those insurance companies and re-evaluate their investments in GICs and annuity contracts, when the same company is going down the road and killing you by using non-union labor."

GICs are fixed-income investments usually pooled into insurance company general accounts and matched with so-called short-term bullet loans that often are used to finance developers' construction projects. Because the investments are pooled, the effect is to have a lot of sources on one end and an array of motivations on the other, two of which are the hiring of union and non-union labor.

The unions contend the monolith formed by the general accounts is more concerned with consistent investment returns, not the details.

"Just because the money would pass through several machinations and comes out there, doesn't make it any cleaner," is how Mr. Weldon of the trades council put it.

"We're financing our demise," he said, echoing Mr. Walton. "We're kind of upset with the insurance companies that have so much of our money and don't pay any attention (to hiring practices). We feel if enough of us take a position, we can do something about it. A lot of our money is being financed into jobs that are exploiting us and we're increasingly annoyed about."

If the annoyance turns to action, the effect apparently would not be as great as it could have been two years ago. Indeed, the asset allocation to GICs in the portfolios of the largest union funds has been decreasing in the short term.

The assets of union funds among the Top 200 pension funds surveyed by *P&I Age* grew to $19.2 billion from $18.4 billion in the year ended Sept. 30, 1984, but the asset share devoted to GICs dropped to 3.5% from 7.1%, or to $480 million from $1.3 billion.

Union funds among the next 800 largest, had 8.8% of their assets in GICs as of Sept. 30.

The 1985 Money Market Directory reported union pension funds held 5.8% of their $22.8 billion in assets, or $1.3 billion, in GICs. The previous year they held 5.6% of $18.4 billion, or $1 billion, in GICs.

In the past, Metropolitan Life Insurance Co. has been a focus of Mr. Walton's attention; most recently, he said, he has had four conversations with a representative of Equitable Life Assurance Society of the United States over a local project and a Dallas building.

Both of these firms will be mentioned in the letter, he said.

He does not excuse the Prudential Insurance Co. of America, either, just because it operates a commingled fund in participating mortgages specifically for union investment.

On the one hand, PRIMOR, as the union investment fund is called, is criticized because of a companion fund that does not specify union projects; projects are selected for investment, then put in the appropriate pooled fund.

Also, "I don't think Prudential can say 'We're a good boy because we have a union-investment fund' " when it also has the general account that does not carry the restrictions, Mr. Walton said.

The fight with Metropolitan was over a 1983 $30 million Fort Lauderdale office project called the Paragon Building. By all accounts, picketing was intense and feelings ran high; brochures attacking Metropolitan and the developer were distributed and Mr. Walton said he documented the struggle in a videotape.

Mr. Walton contends firmly no union labor was used on the Paragon Building. A spokesman for Metropolitan said the financing was provided from its commingled fund for developmental projects, Fund RE, which has no union pension fund clients. The spokesman was not as certain the project was constructed by all non-union labor.

Mr. Walton's discussions with Equitable have been over a $775 million health-care conference and exhibition center proposed for Broward County, called EcuMed. Regional newspapers have identified Equitable — as well as Tishman Speyer Properties and Crown Equities — as the developers.

Equitable is adamant that it is not developing this project.

"We are not involved in the joint venture, period," said Jonathan Miller, spokesman for Equitable. The confusion appears to have grown from Equitable's other interests. It does own the land and it is a limited partner in Tishman Speyer. ■

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Summary of our Annual Report 1984

1983		1984
DM 3,732 million	Business Volume	DM 3,848 million
DM 3,247 million	Total Assets	DM 3,325 million
DM 2,762 million	Deposits	DM 2,821 million
DM 2,137 million	Bill and Advances	DM 2,234 million
DM 135 million	Capital	DM 140 million
DM 10,948 million	Consolidated Total Assets	DM 11,443 million

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Top 100 firms' assets up 9.5%

Total assets managed by the nation's 100 largest money managers increased almost 10% in 1984 to $1.2 trillion, *Pensions & Investment Age*'s annual survey shows.

The 100 largest money managers in the survey had total assets of $1.187 trillion as of Jan. 1, 9.5% greater than a year ago. However, changes in the composition of the Top 100 this year reduced the growth rate.

The most significant change was the deletion of the $35 billion Teachers Insurance & Annuity Association — College Retirement Equities Fund from the list of managers. TIAA-CREF considers itself a pension fund, rather than a money management firm *(see story on page 6)*.

Within the total, the 100 largest managers of pension, profit-sharing, endowment and foundation assets invested $735.2 billion for such tax-exempt institutions, a gain of just 3% from last year's survey. Again, however, the figures were affected by the deletion of TIAA-CREF.

If TIAA-CREF had been included, the growth would have been 8.9%, to $770 billion.

Smaller investment management organizations grew more rapidly than large firms in 1984. While the tax-exempt assets of the 100 largest tax-exempt managers grew only 3% (without TIAA-CREF), the assets of the Top 200 grew 4.8%, indicating the second 100 grew more rapidly than the first 100.

This growth was affected by:

- A lackluster stock market in 1984, when the Standard & Poor's 500 index was up only 6.3% and the median money manager was up about 3%.
- A decline in contributions to pension funds.
- Withdrawal of several billion dollars by companies terminating pension funds.

The Top 100 tax-exempt managers list is made up of 55 investment counseling firms (compared with 36 last year), 29 bank trust departments (41 last year) and 16 insurance companies (21 last year).

However, nine of the counseling firms are subsidiaries of insurance companies, and nine are subsidiaries of banks.

The numbers show the extent to which banks and insurance companies have spun off their traditional investment management operations into subsidiaries, or have acquired investment management firms as subsidiaries.

For example, Equitable Life Assurance Society of the United States, which manages $21.3 billion in tax-exempt assets, also has three subsidiaries among the Top 100 managers: Alliance Capital Management, with $16.3 billion in tax-exempt assets; Equitable Investment Management Corp., with $7.3 billion; and Equitable Real Estate Investment Management, with $3.7 billion.

Banks and bank subsidiaries in the Top 100 managed 39% of the $335.2 billion in tax-exempt assets managed by the Top 100 firms. Insurance companies and their subsidiaries managed 34% and investment counseling firms, 27%.

This suggests banks increased their market share in 1984 at the expense of investment counseling firms, perhaps because of their greater involvement in indexed management and dedicated bond funds.

The ranking of the Top 100 tax-exempt managers changed dramatically in 1985 because of the splitting off of the investment management subsidiaries that are listed separately *(see related story on page 4)*.

The statistics were derived from the profiles of 874 firms managing U.S. tax-exempt assets. *(Profiles begin on page 19.)*

Included are profiles of international firms managing U.S. tax-exempt assets invested overseas, and profiles of 60 Canadian investment managers.

Excluding the Canadian managers, those firms profiled managed total assets of $1.740 trillion and tax-exempt assets of $1.034 trillion.

The tax-exempt assets managed by the firms profiled accounted for 73% of the estimated $1.4 trillion in total U.S. tax-exempt assets. An additional 20% is managed internally by pension funds, endowments and foundations.

The market share of the tax-exempt assets managed by all of the firms profiled (excluding the Canadians) was different from that for the 100 largest firms. Bank and bank subsidiaries managed 38.4% of the tax-exempt assets managed by all managers profiled; investment counseling firms, 33.7%; and insurance companies and their subsidiaries, 27.9%.

The difference is explained by the greater numbers of investment counseling firms outside the Top 100 list.

Overall, 671 investment counseling firms, 168 banks and 35 insurance companies were ranked and profiled. Eighty-six of the counseling firms are subsidiaries of banks and insurance companies.

The non-Canadian management firms employ 4,957 portfolio managers and 4,498 security analysts.

The investment counseling firms on average tend to have a slightly higher number of stocks on their core list of stocks followed closely — 148 — than banks, 140, or insurance companies, 137.

However, banks and insurance companies screen substantially more stocks generally. Banks have an average of 430 stocks on their general watch list; insurance companies, 426; and investment counseling firms, 148.

The banks use more outside or Wall Street research than either insurance companies or counseling firms.

The banks report generating only 31% of their research internally, on average, while investment counseling firms generate 49% and insurance companies, 50%.

The firms profiled manage $57 billion in real estate investments, $39.7 billion of that in equity real estate, for tax-exempt clients.

Prudential Asset Management was the largest real estate manager for tax-exempt clients with $5.873 billion in real estate equity. It was followed by Equitable Real Estate Investment Management, $3.727 billion, and Corporate Property Investors, $2.2 billion.

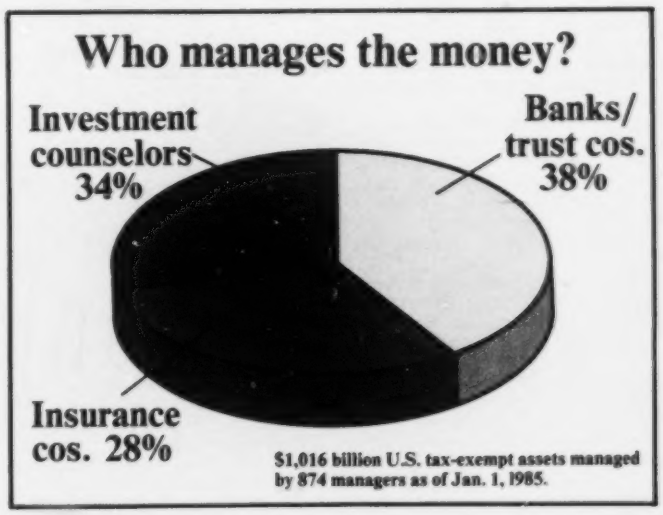
Money managers also had $14.6 billion in international investments for U.S. tax-exempt clients, $11 billion in foreign stocks, $2.7 billion in foreign bonds and $0.9 billion in short-term investments.

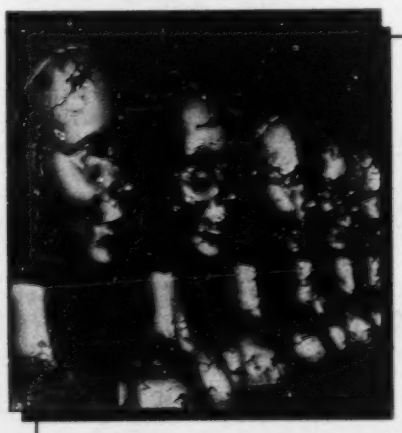
J.P. Morgan had the largest amount invested overseas for U.S. tax-exempt clients, $2.2 billion, followed by Morgan Grenfell Investment Services Ltd., $1.1 billion; Capital Guardian Trust Co., $853 million; and Fidelity International Investment Advisors, $850 million.

The firm profiled managed $14.1 billion for 401(k) plans, possibly the fastest growing segment of the tax-exempt market. The largest managers of 401(k) assets were The John Hancock Cos., $2 billion; Aetna Life, $1.9 billion; State Street Bank and Trust Co., $976 million; Provident National Assurance Co., $600 million; and CIGNA Corp. and AmeriTrust Co., both with $500 million. (Some managers did not provide breakdowns of their 401(k) assets under management.)

Overall, among the money managers profiled, insurance com-

Continued on page 4


Who manages the money?
Investment counselors 34%
Banks/ trust cos. 38%
Insurance cos. 28%
$1,016 billion U.S. tax-exempt assets managed by 874 managers as of Jan. 1, 1985.



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Pensions & Investment Age

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Banks, their subs maintain top hold on funds' assets

By Trudy Ring

Banks and their investment management subsidiaries continued to win the biggest share of tax-exempt assets among the nation's 100 largest managers of tax-exempt assets last year.

Banks, trust companies and bank-affiliated investment counseling firms had 39% of the $735.2 billion in tax-exempt assets managed by the 100 largest firms Jan. 1. This represented a slight increase from the previous year, when banks and their subsidiaries had 38%.

Observers credit the gain, at least in part, to the growing popularity of the passive investment management approaches — such as indexing, dedicating and immunizing — that banks offer.

The share of the pie held by insurance companies and their investment subsidiaries remained constant at 34%, while that going to independent investment managers decreased slightly, to 27% from 28%.

Despite the banks' edge in market share among the Top 100, insurance companies or their subsidiaries were six of the Top 10 managers. Insurance companies benefited from the popularity of guaranteed investment contracts, particularly for defined contribution plans, and from annuity sales to sponsors who terminated pension plans.

The firm with the most tax-exempt assets under management was The Prudential Asset Management Co., Newark, N.J., the investment subsidiary of The Prudential Insurance Co. of America. The tax-exempt asset base grew to $34 billion from $29 billion, a 17% increase. Prudential was ranked third last year.

Much of Prudential's gain came from GICs and other guaranteed products. James Gately, senior vice president of the asset management firm, noted that many sponsors are setting up 401(k) plans, which almost always include a guaranteed investment option. "That portion of the business is continuing to grow rapidly in 1985," he said.

Annuity sales also were strong in 1984, but they may not grow so much this year, Mr. Gately said. Other growth areas for Prudential were its PRISA real estate fund, dedicated and immunized fixed-income products and international investments, he said.

The firm that Prudential knocked out of first place was Equitable Life Assurance Society of the United States, New York. Equitable and its subsidiaries reported their assets separately this year, while they reported as a group last year.

However, the total assets of Equitable Life, Equitable Investment Management Corp. and Equitable Real Estate Investment Management came to $32.3 billion, still 11% less than the $36.1 billion reported for the firm last year. Equitable Life placed seventh this year, while the investment management subsidiary placed 27th and the real estate firm, 61st.

Equitable also acquired another subsidiary, Alliance Capital Management Corp., New York, last year. Alliance's assets were reported separately; they remained constant at $16.3 billion, and the firm ranked in the same place, 10th.

Rising to second from fourth was Bankers Trust Co., New York, whose assets rose 10%, to $31.1 billion from $28.3 billion. Bankers Trust is a major provider of index funds.

Metropolitan Life Insurance Co., New York, rose to fourth place from sixth. Tax-exempt assets managed by Metropolitan increased 20%, to $30.5 billion from $25.8 billion. Harvey Young, a vice president, noted that GICs for defined contribution plans accounted for much of the increase. "Defined contribution plans, including 401(k) plans, are just exploding," Mr. Young said.

Rounding out the Top 10 were J.P. Morgan Investment Management Inc., third, up 20%, to $30.9 billion from $25.4 billion; Aetna Life & Casualty Co., fifth, up 3%, to $27.9 billion from $26.8 billion; Citicorp Investment Management, sixth, up 16%, to $21.5 billion from $18.4 billion; Manufacturers Hanover Investment Corp., which remained in eighth place despite a 25% decrease in tax-exempt assets, to $18 billion from $24 billion; and The Travelers Cos., ninth, up 21%, to $18.2 billion from $15 billion.

Other large firms with significant gains included CIGNA Corp., up 14%, to $16.2 billion from $14.3 billion; Chase Investors Management Corp., up 18%, to $13 billion from $11 billion; State Street Bank and Trust Co., up 19%, to $9.4 billion from $7.9 billion; Harris Trust and Savings Bank, up 57%, to $8.8 billion from $5.6 billion; Criterion Investment Management, up 39%, to $7.8 billion from $5.6 billion; New York Life Insurance Co., up 32%, to $7 billion from $5.3 billion; Lehman Management Co., up 22%, to $6.6 billion from $5.4 billion; Pacific Investment Management Co., up 51%, to $8 billion from $5.3 billion.

Among other big gainers were Trust Co. of the West, up 20.7%, to $6.4 billion from $5.3 billion; Northern Trust Co., up 57%, to $6.7 billion from $4.3 billion; Great West Life Assurance Co., up 23%, to $5.8 billion from $4.7 billion; Miller, Anderson & Sherrerd, up 43%, to $5 billion from $3.5 billion; RepublicBank Dallas, up 34%, to $4.7 billion from $3.5 billion; and Lincoln Capital Management Co., up 58%, to $4.1 billion from $2.6 billion.

Their gains came for a variety of reasons.

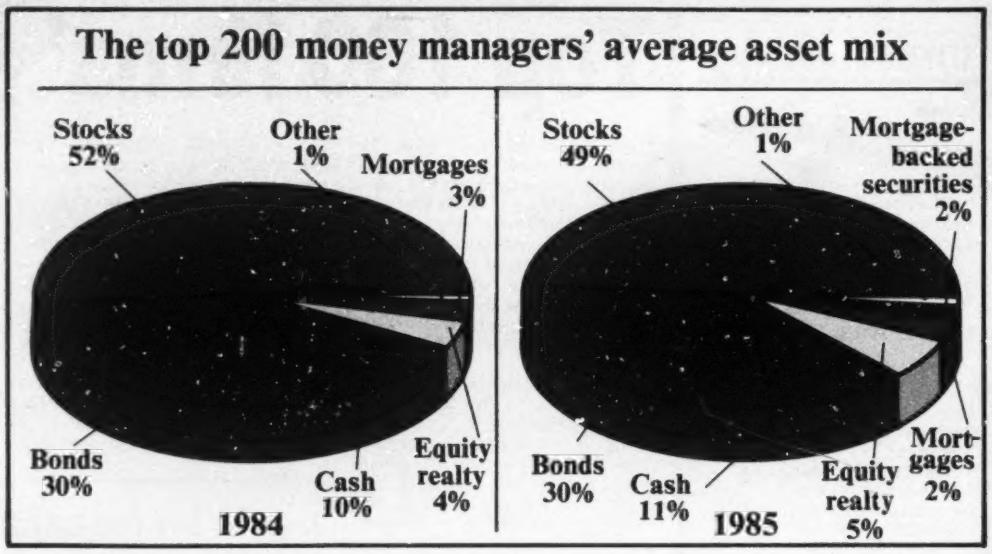
For instance, Chase, State Street and Harris all are active in indexing. Lincoln Capital does dedication and contingent immunization. New York Life and Great West Life, like several other insurance companies, are big in GICs.

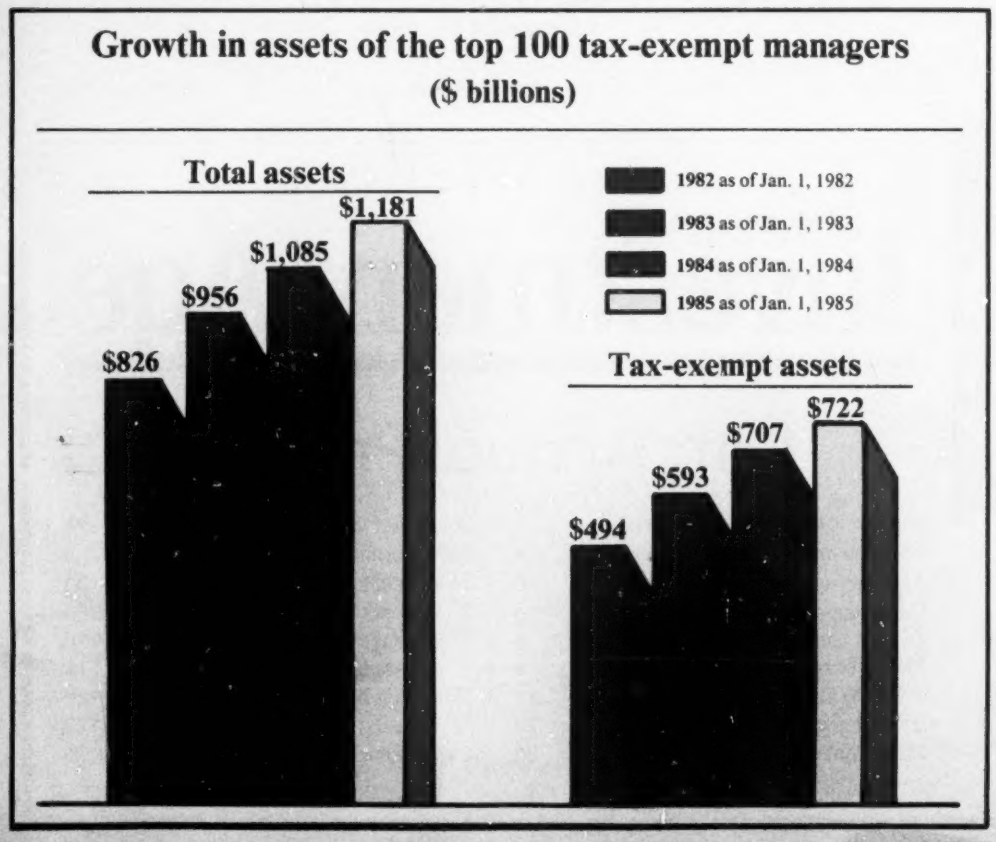
Active management also attracted dollars. PIMCO and Miller, Anderson & Sherrerd both do much active fixed-income management, and RepublicBank officials felt their value-oriented, low price/earnings multiples stock strategy attracted clients.

Not all managers increased their asset bases, however. The main reason for Manufacturers' Hanover's decrease was the restructuring of the New York State Teachers Retirement System, said William Petty, vice president. Of the $4 billion Manufacturers Hanover has run for the system, $2.4 billion has been turned over to other managers.

Also showing a significant decrease was Continental Illinois Corp., which had well-publicized troubles last year. The bank, ranked 49th in tax-exempt assets last year with $4.5 billion, dropped out of the Top 100 this year. With $1.5 billion under management, it ranked 141st.

Other managers recording large decreases included The Putnam Advisory Co. Inc., down 19%, to $5.4 billion from $6.7 billion; Forstmann-Leff Associates, down 20%, to $3.9 billion from $4.9 billion; and MacKay-Shields Financial, down 30%, to $3.5 billion from $5 billion. ■





Assets up 9.5% . . .

Continued from page 3

panies had snared the largest share of the 401(k) business, $6.5 billion, followed by banks with $4.1 billion and investment counseling firms with $3.5 billion. Most of the investment counselors' share of the business went to subsidiaries of banks or insurance companies or firms offering mutual funds.

Insurance companies have one popular product — guaranteed investment contracts — and they have $65.5 billion of client assets in such contracts.

Metropolitan Life had the largest amount in GICs, $14 billion, followed by Equitable, $13.3 billion; Aetna, $9.6 billion; The Travelers Cos., $7.2 billion; and John Hancock, $5.4 billion.

The overall asset mix of the money managers profiled (excluding Canadian managers and insurance company general account assets) was 52% stocks, 26% bonds, 12% cash equivalents, 5% real estate equity, 2% mortgages, 1% mortgage-backed securities and 2% other investments.

The asset mix did vary by type of manager. Investment counseling firms had significantly more invested in common stocks than either banks or insurance companies.

Investment counseling firms had 55% of their assets in common stocks, 22% in bonds, 12% in cash equivalents, almost 6% in equity real estate, 2% in mortgages, 1% in mortgage-backed securities and 2% in various other investments.

Banks, on the other hand, had only 44% in equities and insurance companies had 42% in equities. Banks had 40% in bonds while insurance companies had only 26% in bonds. Insurance companies, on the other hand, had 10% of their assets in real estate equity and 7% in mortgages compared with 1% for each for the banks.

These differences in asset mix reflect the specializations of the managers. Investment counseling firms most often are equity specialists; banks more often are balanced managers and offer a full range of investment products, except real estate in most cases; and insurance companies also offer the full range of investment alternatives and offer strong real estate products in many cases.

The use of hedging devices seems by money managers seems to be growing rapidly. While only about 10% of the money managers — 93 — use stock index futures, this is more than twice as many as used them last year. The number using fixed-income futures grew 26% in the year to 87, and the number using options grew 31% to 238.

Five years ago, only 70 managers used options and 17 used the newly introduced fixed-income futures.

Canadian managers profiled managed $118 billion, mostly in Canadian tax-exempt assets. However, many Canadian managers invest the pension assets of the Canadian subsidiaries of U.S. companies.

The Canadian managers had 34% of their assets invested in Canadian stocks, 34% in bonds, 11% in cash equivalents, 5% in real estate, 5% in mortgages, 10% in U.S. stocks and 1% in other investments.

The 1985 directory of investment advisers, *Pensions & Investment Age's* 12th edition, is the largest and most complete listing of its kind. ■

No agreement on trend

Concentration: Is it growing?

By Trudy Ring

Concentration of ownership of investment management organizations might be on the rise, but there is no consensus among industry observers.

Of the 874 firms surveyed by *Pensions & Investment Age*, 223 own or are owned by another money manager. This was the first year respondents were asked about those affiliations.

There have been several well-publicized acquisitions of money management firms and launches of management subsidiaries in recent years. But is this a growing trend? Consultants' opinions differ.

"It's happened all along, and I don't think it's accelerated at all," said Keith Stransky, director of equity research for Evaluation Associates Inc., Westport, Conn. "I have not seen a trend toward smaller firms being swallowed up by larger firms."

Mr. Stransky said he would be likely to see such a trend if it existed because he deals primarily with small firms.

A different opinion comes from Ronald D. Peyton, president of Callan Associates Inc., San Francisco.

"I would say it's on the increase," Mr. Peyton said. "Everything in the financial services business these days is big, big and getting bigger."

He pointed to one of 1984's biggest transactions in this area — the acquisition of Donaldson, Lufkin & Jenrette and its investment management arm, Alliance Capital Management Corp., by Equitable Life Assurance Society of the United States. The sale came right after Alliance, already a very large manager, announced it would buy Eberstadt Asset Management Inc. All the companies involved are based in New York.

Equitable officials said the acquisition of DLJ and Alliance represents a significant step in Equitable's growth and expansion as a financial services company.

"Certainly Equitable is in the process of consolidating ownership," Mr. Peyton said.

Another firm that has been acquiring money managers is United Asset Management Corp., a holding company based in Boston. Late last year, Sterling Capital Management, Charlotte, N.C., and Thompson, Siegel & Walmsley, Richmond, Va., agreed to sell to UAM.

In March of this year, UAM acquired Analytic Investment Management Inc., Irvine, Calif. Also, UAM plans to complete the purchase of Allen & Associates Investment Management, Atlanta, in May. The Allen firm will be merged into Wall, Patterson, McGrew & Hamilton Inc., already part of UAM's holdings.

In the past two years, UAM has bought several other firms, including Hellman, Jordan Management Co., Boston; Chicago Asset Management, Chicago; and Nelson, Benson & Zellmer Inc., Denver. UAM aims to have a national, diverse stable of money managers.

Whether or not acquisitions are increasing, any acquisition merits the attention of consultants and clients, Mr. Stransky said.

"We get a little nervous when a firm is taken over by another firm," he said. "We don't know if there's going to be a bloodbath, or if they're going to try to impose their style on the other firm. If they leave the other firm alone, fine."

Of course, there's more to management affiliations than acquisitions. Many banks have spun off investment subsidiaries in recent years. Those that have done so include Mellon Bank, Pittsburgh; First National Bank of Chicago; The Northern Trust Co., Chicago; Chemical Bank, Manufacturers Hanover Trust Co., and Morgan Guaranty Trust Co., all of New York; and Bank of New England, Boston.

Forming subsidiaries brings many advantages, said Donald McMullen, executive vice president of Mellon. Subsidiaries allow investment professionals to focus on their areas of expertise, unencumbered by large organizational structures, he said.

"When clients sign up with one of these investment subsidiaries, they know they're dealing with people who are experts in that field who will continue to be experts in that field," Mr. McMullen said. Also, clients generally don't have to worry about the investment professionals leaving to work for specialized investment firms because that's where they're working already.

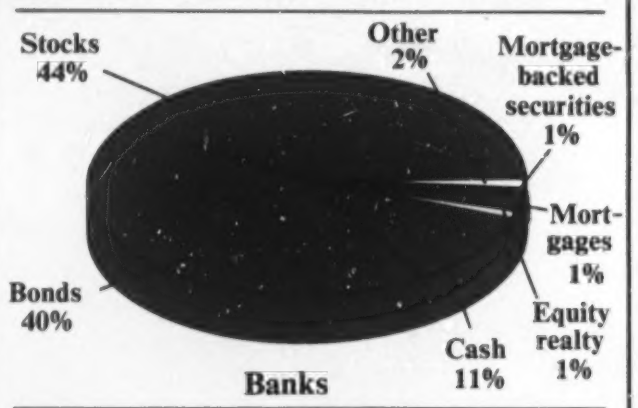
Mellon is considering further subsidiary spinoffs, and Citicorp is putting together plans to make its investment management operation a subsidiary.

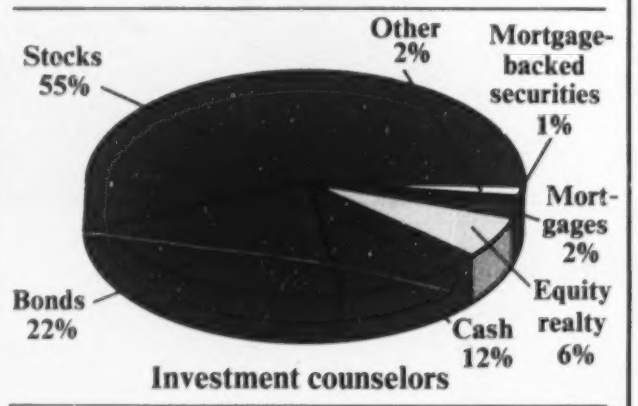
Also, Polaroid Inc. last year formed an investment management subsidiary, Merganser Capital Management Corp. Polaroid is one of the few firms not primarily in financial services that have spun off an investment subsidiary.

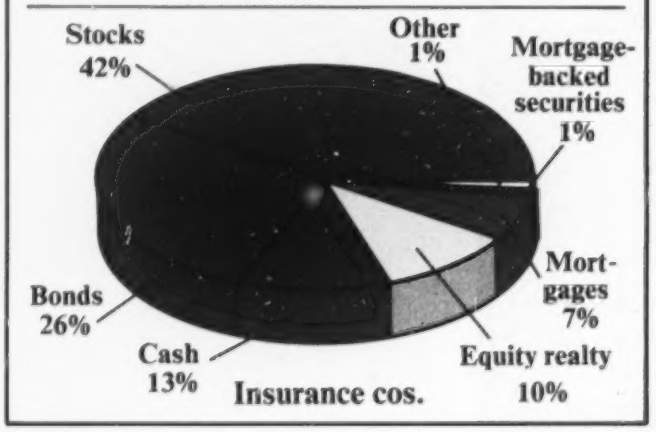
Mr. Peyton said he expects ownership of investment counsel firms to become more and more concentrated. Banks and insurance companies are acquiring or spinning off investment firms to gain or maintain market share, he said.

However, he also foresees a time when small, independent investment firms will start springing up in droves and attracting business. "Then the competitive cycle will start all over again," he said. ■

Tax-exempt asset mix (by adviser)







TIAA-CREF dropped from listing

NEW YORK — One familiar name — TIAA-CREF — is missing from *Pensions & Investment Age*'s 12th annual profiles of investment advisers.

At the request of system officials, TIAA-CREF now will be included in *P&I Age's* annual profiles of the nation's largest pension funds, published each January. Below is its 1984 data.

TIAA-CREF, a nationwide pension system for 3,712 higher education and related non-profit educational organizations, had $35.1 billion in assets as of Jan. 1, all of which are tax-exempt and discretionary.

The College Retirement Equities Fund is broadly diversified, with active, passive and international components. Investments in the active component are selected using long-term fundamental analysis and a disciplined valuation approach.

The Teachers Insurance & Annuity Association uses proper evaluation and pricing of risk-reward relationships in fixed income. It considers itself a moderately aggressive investor, willing to accept risk if it has been evaluated and included in the pricing.

TIAA's real estate approach is active and diversified. It makes long-term mortgage loans featuring participations and bullet-maturity mortgage loans with maturities of 10 years or less. It also seeks to acquire real estate for its own investment account.

CREF's asset mix Jan. 1 was 100% stocks; TIAA's asset mix on that date was 0.5% stocks, 47.2% bonds, 3.2% cash, 5.5% equity real estate and 43.6% mortgages.

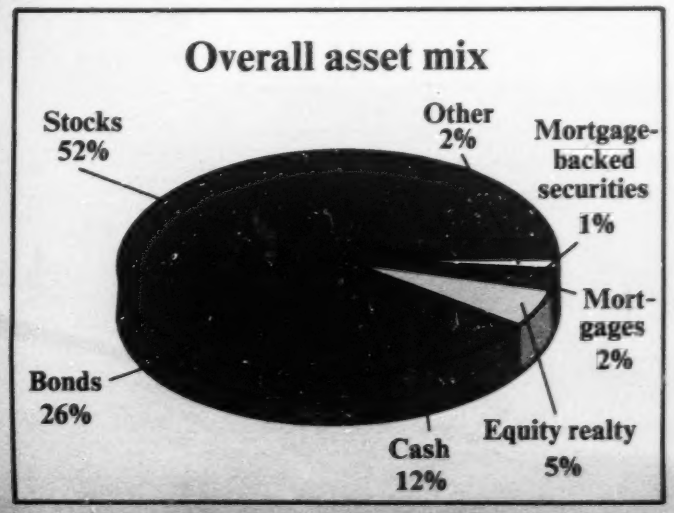
About $9.4 billion was invested in real estate Jan. 1, $1 billion in equity real estate and about $8.4 billion in mortgages. About $2 billion was invested in international markets: $1.54 billion in international stocks and $489.5 million in international bonds.

TIAA-CREF has 24 portfolio managers and 100 members of its research staff. Research is 90% internally generated; 100 stocks are followed closely and 1,600, generally. The system had a net gain of $5 million in tax-exempt assets last year; its total premium income was $2.6 billion.

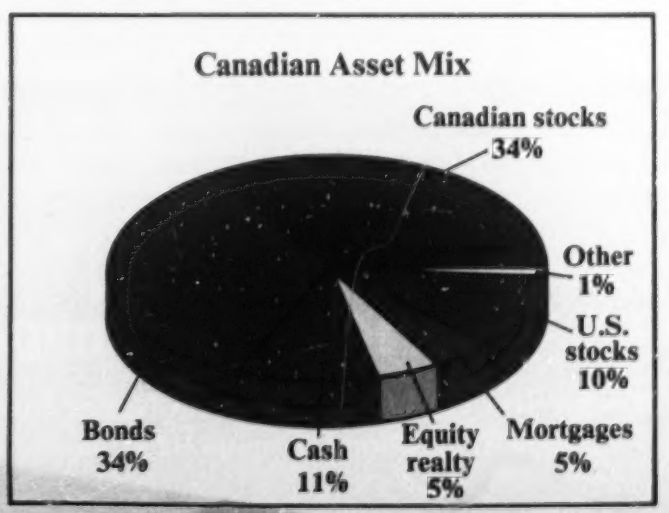
James S. Martin, executive vice president-CREF Investments and chairman-CREF finance committee, is the chief investment officer for CREF.

J. Daniel Lee Jr., executive vice president-TIAA Investments, is chief investment officer for TIAA. ■

Overall asset mix



Canadian Asset Mix



Data obtained from survey

The information contained in this special issue was developed by *Pensions & Investment Age* from answers to detailed questionnaires sent to banks and trust companies, investment counselors and insurance companies in the United States and Canada. International, venture capital and real estate advisers also were queried.

About a dozen members of the *P&I Age* editorial staff began work on this — the largest issue and biggest directory in the magazine's history — early this year.

As in previous years, each company was asked to provide total assets under management, tax-exempt assets under management and the amount that is fully discretionary. Each also was asked to provide its asset mix as of Jan. 1, kinds and number of clients and involvement in specialized investment vehicles.

Each profile also explains the manager's approach to stocks, bonds and real estate, where appropriate.

New features of the 1985 questionnaire included the net gain or loss in new tax-exempt business and affiliations with other financial services companies.

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